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UDC 336.761.6(477+439)

УДК 336.761.6(477+439)

R. J. Bacho, Candidate of Economic Sciences, Associate Professor,
N. M. Vdovenko, Doctor of Economic Sciences, Professor,
N. N. Poyda-Nosyk, Candidate of Economic Sciences, Associate Professor

Р. Й. Бачо, к. е. н., доцент,
Н. М. Вдовенко, д. е. н., професор,
Н. Н. Пойда-Носик, к. е. н., доцент

IMPLEMENTATION OF FOREIGN EXPERIENCE OF PRE-TRIAL DISPUTE SETTLEMENT AT FINANCIAL SERVICES MARKETS IN UKRAINE

ВПРОВАДЖЕННЯ ЗАРУБІЖНОГО ДОСВІДУ ДОСУДОВОГО ВРЕГУЛЮВАННЯ СПОРІВ НА РИНКАХ ФІНАНСОВИХ ПОСЛУГ В УКРАЇНІ

Urgency of the research. The financial crisis that engulfed markets of non-banking financial services in 2008-2009, have indicated the imperfection of protection the consumers' rights of these services. Given that Ukraine has chosen the European integration progress for its further development, there is an urgent need to strengthen the protection of the consumers' rights in the sphere of non-banking financial services in Ukraine.

Target setting. Taking into account the European Commission Recommendation 98/257/EK, it is reasonable to study the best international practices of consumers' protection in the field of non-banking financial services to implement alternative mechanisms of resolving disputes between consumers and providers of financial services in Ukraine.

Actual scientific researches and issues analysis. Issues concerning improvement of state regulation of financial services markets in Ukraine are investigated in scientific works of A. Baranovsky, N. Vnukovo, A. Lupus, A. Gamankova, V. Goncharenko, A. Zaletova, V. Levchenko, etc. International experience of the state regulation in the developed countries are mentioned in the works of C. Goodhart, S. Ingves, Ch. Lentner, Dy. Matolcsy, E. Nier, D. Tsomokos etc.

Uninvestigated parts of general matters defining. The research works of the scientists listed above does not allow concluding on the completeness of their valuation of such a mechanism for the implementation of consumer protection as a financial arbitration.

The research objective. The article aims to reveal the positive experience of functioning the Financial Arbitration Board in Hungary as an alternative form of fulfillment the rights of consumers to protect their legitimate interests and to rationalize the possibility of its implementation in the modern realities of Ukraine.

The statement of basic materials. The article substantiates the feasibility of the implementation of the Hungarian experience in a modern system of consumer protection in Ukraine. The authors have revealed features of functioning of the Financial Arbitration Board of Hungary, statistical analysis of which allows making a conclusion about its effectiveness in resolving disputes between consumers and financial service providers.

Conclusions. The adoption of the Hungarian experience with financial arbitration in the modern realities of Ukraine will contribute to the integration of the state into the European economic area through implementation of the Recommendation of European Commission 98/257/EK and to

Актуальність теми дослідження. Фінансова криза, що охопила ринок небанківських фінансових послуг у 2008-2009 рр., вказала на недосконалість захисту прав споживачів цих послуг. Враховуючи, що Україна обрала євроінтеграційний поступ подальшого свого розвитку, необхідною умовою є вдосконалення системи захисту прав споживачів небанківських фінансових послуг.

Постановка проблеми. Враховуючи Рекомендації Європейської Комісії 98/257/EK, доцільним є вивчення кращих міжнародних напрацювань в галузі захисту прав споживачів небанківських фінансових послуг з метою впровадження альтернативних механізмів вирішення спорів, що виникають між споживачами та надавачами фінансових послуг в Україні.

Аналіз останніх досліджень та публікацій. Питанням вдосконалення державного регулювання ринків фінансових послуг в Україні присвячені наукові праці О. Барановського, Н. Внукової, О. Вовчак, О. Гаманкової, В. Гончаренко, О. Залєтова, В. Левченко та ін. Проблеми державного регулювання на прикладі розвинених країн порушуються у працях С. Гудхарта, С. Інгвеса, Ч. Лентнера, Д. Матолчі, Е. Нієра, Д. Тсомокоса та ін.

Виділення недосліджених частин загальної проблеми. Дослідження робіт наведених вище науковців не дозволяє робити висновок про повноту оцінки ними такого механізму реалізації права споживачів фінансових послуг, як фінансовий арбітраж.

Постановка завдання. Стаття покликана розкрити позитивний досвід функціонування Фінансової Арбітражної Комісії в Угорщині як альтернативної форми реалізації права споживача фінансових послуг на захист своїх законних інтересів і обґрунтувати можливість його впровадження в сучасних реаліях України.

Виклад основного матеріалу. У статті обґрунтовується доцільність імплементації угорського досвіду в сучасну систему захисту прав споживачів, яка функціонує в Україні. Авторами розкрито особливості функціонування Фінансової Арбітражної Комісії Угорщини, статистичний аналіз діяльності якої дозволяє робити висновок про її ефективність у врегулюванні спорів між споживачами та надавачами фінансових послуг.

Висновки. Впровадження угорського досвіду фінансового арбітражу в сучасних реаліях України сприятиме інтеграції держави у Європейський економічний простір шляхом імплементації Рекомендації

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the strengthening of public confidence in financial markets.

Keywords: *financial services markets; National Commission for the State Regulation of Financial Services Markets; financial arbitration; Financial Arbitration Board; National Bank of Hungary.*

DOI: 10.25140/2410-9576-2017-2-2(10)-85-93

Європейської Комісії 98/257/ЕК та посиленню довіри населення до ринків фінансових послуг.

Ключові слова: *ринки фінансових послуг; Нацкомфінпослуг; фінансовий арбітраж; Фінансова Арбітражна Комісія; Національний Банк Угорщини.*

Urgency of the research. In present-day conditions the need to strengthen right protection of non-banking financial services market consumers in Ukraine is actualized. The financial crisis that has gripped the non-banking financial services market in 2008-2009, and negative effects of which are felt till now, has indicated the imperfection of the these services consumers' right protection. Taking into consideration that in its further development Ukraine has chosen the European integration vector, as an indispensable condition for entry into the European Economic Area is an implementation of the relevant EU requirements in different sectors of the economy. No exception to this is the protection of non-banking financial services consumers' rights.

Target setting. According to the European Commission Recommendation 98/257/EC [20] in each Member State is appropriate functioning of a body, responsible for the resolution of pre-trial disputes between citizens which are consumers of financial services and professional participants, i.e. providers of these services. Thus, the question of implementing alternative mechanisms for the resolution of disputes between consumers and financial service providers becomes especially acute.

Actual scientific researches and issues analysis. Studies of O. Baranovskiy [1], N. Vnukova [8], O. Vovchak [3], O. Hamankova [4], V. Honcharenko [5], O. Zalyetov [6], V. Levchenko [7] and others are devoted to the research of national market of non-banking financial services system's state regulation improvement. Studies of C. Goodhart [9], S. Ingves [10], Ch. Lentner [11], Dy. Matolcsy [13], E. Nier [12], D. Tsomokos [14] and others are dealing with the issue of improving state regulation on the example of developed countries.

Uninvestigated parts of general matters defining. The researches within scientific works of the abovementioned scientists does not allow to conclude about the fullness of their assessment concerning such a mechanism for financial services consumers' rights implementing as a financial arbitration.

The research objective. The conducted research is aimed to assess the functioning of the Financial Arbitration Board in Hungary as an alternative forum of the financial services consumer's right enjoyment in order to protect their legitimate interests. Tasks set in the paper consist in the disclosure of the functioning and decision-making peculiarities of this body and general evaluation of its activities since its creation.

The statement of basic materials. The financial crisis that engulfed markets of non-banking financial services in 2008-2009 and negative consequences of which can be seen in the present time, have indicated the imperfection of protection the consumers' rights of these services. The current practice of functioning such markets underlines the insufficient level of consumer protection, imperfect mechanism for the implementation of their rights, their low financial and legal education, over regulation of the processes by the state. The low level of protection of the population confirms a high level of complaints from the population to the regulator, as well as numerous lawsuits and frequent cases of revocation of licenses of non-banking financial institutions. Table 1 provides information on the number of complaints received by the National Commission regulating financial services markets (further - the Commission).

The increase in the number of consumer complaints to the regulator in the pre-crisis period is common due to the growth in the number of non-banking financial institutions and the volume of non-banking market. But in 2009 the number of citizens' complaints increased by 3 times in comparison with the previous year. The main reason – the economic and financial crisis, which had led to significant insolvency of financial institutions. A certain reduction in the number of complains from citizens to the Commission was in 2011-2012, but in 2013-2014 the complication of financial and

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economic situation reflected in the activation of consumer complaints. So, in 2014 the number of complaints from individuals has reached its maximum (8.4 thousand complaints), that exceeded 1.5 times the figure in 2012. In 2009-2010, the most complaints were about credit unions (41.6% and 48.4% accordingly) and insurance companies (49.1% and 43.4% accordingly). In 2013-2014, the share of citizens' complaints in the total complaints increased to 85%, moreover complaints against the activity of insurance companies were 72-76% of all citizens' complaints. 2015 is characterized by a decrease in the number of complaints through the narrowing of the market as a result of the events in the Donbas, reduction of participants of the market, strengthening requirements of the regulator.

Table 1

Dynamics of complaints receipts to the National Commission regulating financial services markets 2004-2015*

Indicators	The number of complaints by year, units												Change in %	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2009/ 2008	2015/ 2014
Total complains	735	1594	938	1405	2433	10529	11181	7624	5184	8733	10281	5975	332,8	-41,9
<i>including from citizens</i>	480	728	616	942	1917	7585	5998	5108	3391	7388	8421	5539	295,7	-34,2
Complains against the activity of:	260	685	506	692	1323	5167	4848	2528	3479	6615	7466	4226	290,6	-43,4
- insurance companies	79	143	108	295	884	4384	5406	2299	1286	1285	603	439	395,9	-27,2
- finance companies and pawnshops	0	590	258	216	214	843	272	102	256	541	394	453	293,9	15,0
- non-state pension funds	-	32	14	9	12	123	58	10	12	189	932	137	925,0	-85,3

* Compiled and calculated by authors based on the data of the National Commission for the State Regulation of Financial Services Markets [2, p. 283]

In the context of the participants in the various sectors of non-banking financial services we can make the following conclusions. If in the crisis year 2009, an average number of complaints per one insurance company were 11.5, later the figure increased in 2014 to 19.5. That indicates the accumulation of problems associated with the delay, reduction or denial of insurance payments by insurance companies. In the market of credit cooperation peak intensity of complaints was achieved in 2010 (8.2 complaints), and further there has been its gradual reduction as a result of the withdrawal from the market of troubled credit unions. In particular, in 2014, this figure amounted to 1.02 complaints.

Significant difficulties in the functioning of the private pension funds are reflected in an abrupt increase in the intensity of consumer complaints in the post-crisis period, and in 2014 this figure increased by 6 times compared to the previous year and amounted to 12.3 complaints. Currently, the only possible way for consumers to protect their rights in the case of bankruptcy of a financial institution is an appeal to the court. Despite the high probability of winning in court, the plaintiffs do not receive real financial compensation due to the lack of liquid assets of bankrupt financial institutions, especially in the case of a multi-year long legal process. In this regard a large number of consumers lose their money and suffer losses, which negatively affect the credibility of the non-banking financial institutions and of their services. This loss of consumer confidence in non-banking financial institutions is one of the biggest negatives that caused the crisis of 2008-2009. In the Concept of consumer protection non-banking financial services in Ukraine and the Comprehensive program of development

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of financial sector of Ukraine till 2020 were provided for the establishment of an effective mechanism of pre-judicial resolution of conflicts between consumers and professional market participants through the creation of a collegial body with corresponding decision-making mechanism. Taking into account the main principles of the Strategy of reforming the state regulation of non-banking financial services markets, aimed at deregulating these markets, it is appropriate to implement foreign experience of functioning of alternative mechanisms for conflict resolution between consumers and suppliers of non-banking financial services. The functioning of the Financial Arbitration Board in Hungary is an effective example of increased deregulation on the market with simultaneous strengthening of responsibility of non-banking financial institutions, public confidence in this institution in the absence of additional funding mediation from the state budget.

The Institution of financial arbitration in Hungary is relatively new, as its implementation was launched on July 1, 2011 by adoption in the previous year the Act on the Hungarian Financial Supervisory Authority [21] which later, in 2013, joined to the National Bank of Hungary [23]. This Act also laid the foundations of the functioning of Financial Arbitration Board (FAB), as an institution of pre-trial settlement of disputes between financial services' consumers and providers. It should be noted that according to the Act [23] consumers are identified as individuals that purchase financial services to meet their own needs. Not considered as consumers sole enterprises, individual entrepreneurs, legal entities, nonprofit organizations, condominium associations, and thus they can not apply to the FAB to resolve the arising problems. Financial arbitration is a form of consumers' rights protection, an alternative forum of (pre-trial) disputes resolution that is exclusively citizen oriented.

It should be mentioned that FAB does not protect the rights of financial services consumers, but only helps it by exercising consumers' right for pre-trial settlement of disputes. The FAB's terms of reference cover disputes arising between citizens and financial institutions as the result of providing by the latter financial services to the former. Under FAB are banks and other credit institutions, insurers, saving banks, credit unions, investment funds and other institutions listed in the Article 39 of the Act on the National Bank of Hungary (NBH) [23]. The primary goal of financial arbitration is to achieve agreement between the parties of the dispute, and in case of its failure – adopt a rapid, cost-efficient and effective solution to protect consumers' rights.

FAB is a fully independent body as from institutional point of view and the professional competence as well. FAB operates independently from the NBH, although it belongs to the structure of the National Bank of Hungary. Independent functioning of the body is ensured by a number of laws. The most important feature of the body's independent functioning is that the FAB's Chairman and its members in no way can be dependent in the performance of their authorities and duties. Furthermore there are several additional tools and legislative regulations that ensure FAB's independent and objective decision-making in each case. One of these rules, which promote maximally objectivity in decision making, is the requirement to FAB's member inform about the existence of such events or conditions that may undermine its impartiality or query the objectivity of decisions taken by FAB. Against body member can be filed a motion on his partial objectivity in the existence of suspicions about it. Such motion should be sent to the FAB's Chairman in writing with providing evidences in order to support the party's suspicion for 3 days after disclosure of the dispute investigation commission. The decision to exclude such member makes the FAB's Chairman after open discussion with the involvement of the commission's head formed for a specific dispute. The commission formed to a certain dispute consists of three persons, the complement of which is determined by the commission in the course of work following maximum objectivity, completeness and fairness. The main condition for the procedure initiation in the FAB is the consumer's intention to resolve a dispute with a financial institution. This intention should be reflected in the complaint submitted to the FAB. Without this confirmation the complaint will be returned and refused its adjudication. Another condition for a financial arbitration procedure beginning is the lack of implementation of other forms of judicial (pre-trial) solution concerning particular dispute. So that if the issue is already adjudged in the Arbitration Court or courts of general jurisdiction, the consumer has no opportunity to use this mechanism. About the absence of such procedures the complainant must mention in his claim. According to the Hungarian legislation,

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which governs the relevant segments of the financial market, the financial institution must provide all facilities for consumer's address submission both verbally (in person or by telephone) and written (in person or by transmission of documents by another person, mail, fax, e-mail) forms. Oral address of citizens is carried out by recording of the consumer's conversations on electronic media that later on can be an argument for the financial arbitration procedure starting.

In the case of oral complaint, the financial institution immediately investigates the issue and possibly solves it. If the consumer doesn't agree with the proposed method of solution, a record on the complaint must be drawn up which includes position of the financial institution as well. One copy of the record should be delivered (sent) to the consumer. If the dispute can not be resolved promptly, the financial institution during considering has to draw up a record and send it to the consumer. Response to written complaints should be directed to the consumer within 30 days. Financial institutions have to store for 3 years the received complaints and submitted replies and if necessary must present them at the National Bank of Hungary's request. Each financial institution shall establish its own rules concerning consumer complaints settlement. For disputes settlement surcharge is not taken. There are frequent cases when financial institutions only formally adjudicate consumers' complaints or offer unconstructive ways to resolve disputes, and as a result complaints are not satisfied, even if it's a hackneyed and simple problem. The legal requirement to financial institutions is that they have to fully contribute to disputes settlement with consumers in a pretrial order. If the consumer's complaint is rejected by the financial organization, the complainant should be informed in the rejection letter (record) about the existing ways of realization of his rights. If the complaint involves the protection of consumer rights, the complainant can initiate a right defense procedure as a consumer of the National Bank of Hungary's services. If the financial organization's complaint rejection concerns to contract procedures for financial services providing, its competence and validity or consequences arising from the contract, then consumer in order to protect his rights can turn to the courts of general jurisdiction or to the FAB. This possibility should be pointed out in the financial institution's written response with indication of FAB's mailing address. The procedure of adjudication in the FAB is carried out at the request of the consumer, as FAB is an alternative forum of disputes resolving between consumers and financial institutions, therefore the financial institution is not entitled to apply to the FAB. Consumers' complaints may be submitted in paper form in person or by mail and electronically through specialized online system. The complaint must be appended by the representative's power of attorney in the case of involvement of a third person to represent the consumer's interests. The commission investigates the complaint and attached documents within 15 days, and if there are formal inaccuracies, the complaint could be returned to the consumer for correction. The complaint will be rejected if finding out that at the moment of complaint submission on the case a settlement was already launched or taken in the FAB, courts of general jurisdiction or tribunal.

From the moment of final acceptance of the complaint the procedure in the FAB takes no more than 90 days, but in some cases may be extended up to additional 30 days on the basis of the FAB Chairman's decision. Thus the maximum term does not include the period of complaint's return for revision.

In the case of acceptance of the complaint, the commission directs to the parties a notice about the beginning of the case and appoints sessions in a period not exceeding 60 days. The notice will include the name of commission members, which will adjudicate. The session can be held by correspondence, but both parties should agree it. If one party does not agree with this, the session should take place in the full-time form. According to the legislation [23], both parties have a responsibility to maximize integrity. Within this frame the consumer must submit a properly prepared complaint and by the FAB's demand all the necessary documents. Also the consumer must be present at the proceedings in person or by proxy. Violation of this obligation entails the FAB's refusal to settle the dispute, leaving it without investigation or decision. Financial institution within its duty of cooperation shall send a reasoned response to the complaint, submit supporting documents and attend the sessions. In the case of process breaking the FAB may publish the name and address of the financial institution that refuses to establish the full truth in a particular case concerning the rights protection of financial services consumers. In this case the National Bank of Hungary may impose

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sanctions: from reprimand up to fining of the financial institution. Hereby, each of the parties is interested in the highest possible integrity, as the consumer may lose the right to the truth, and the financial institution may bear additional financial responsibilities in the form of penalty. A special feature of financial arbitration procedure is that the financial institution may apply to the FAB with a notice about the implicitly enforcement of the award adopted by the body. In such notice the financial institution may limit its maximum liability or range of questions that will be taken at the session. The FAB keeps a register of such notices /commitments. If at the contract conclusion on financial services providing the institution noted that it will execute the FAB's decision, it's regarded that the FAB is authorized to take a decision, execution of which is obligatory for the financial institution, even if it hasn't sent to the FAB a general message of such a nature. Despite the fact that the financial institution at its own discretion decides to submit notices /commitments to the FAB, the lack of such notification does not acquit the financial institution from the obligation of maximum integrity. Thus the obligation of decision execution is not binding, but maximum integrity is required. First of all, the FAB tries to resolve the dispute between the parties on a voluntary basis. If a consensus is installed between the parties, which comply with legal requirements, the Commission approves it in its decision. Hitherto the process is considered as amicable with an adjustment. In the absence of a consensus the process continues and is realized like litigation, with the function of truth establishment and finding of violated rights. The outcome of the legal investigation may be twofold: if the financial institution sent a notice /commitment, the FAB decides binding and it must be executed; if such a notice /commitment were not sent, the FAB takes a recommendatory decision.

The commissions' sessions are not open, but if both sides agree then such meetings become open. Taking into consideration that created by the FAB commission on proceedings is a collegiate body, the decision is taken by the majority of votes (3: 0, 2: 1). The procedures performed by the FAB are free of charge. FAB's decision is binding and must be executed within a period of 15 days from the announcement of the decision. If the decision is not made by the financial institution within the term, according to the Hungarian Act on the Organisation and Administration of the Courts [22], the consumer can turn to the courts of general jurisdiction for the issuance of a court order on the basis of the regulatory decisions of the Commission. Decision execution is made by the court's Bailiff Department according to the place of consumer's residence.

As stated above the Financial Arbitration Board of Hungary operates from 2011 and during that time settled a wide range of cases concerning professional participants of financial services markets (Tab. 2).

Table 2

General information about the activities of the Financial Arbitration Board of Hungary during 2011-2015*

Pokaznik	Years					Change for the period, %:			
	2011	2012	2013	2014	2015	2012/ 2011	2013/ 2012	2014/ 2013	2015/ 2014
Total submitted cases	1196	3534	4692	4181	4833	195,5	32,8	-10,9	15,6
Number of rejected cases	418	1296	1655	1519	1740	210,0	27,7	-8,2	14,5
Share of rejected cases in total submitted,%	34,9	36,7	35,3	36,3	36,0	1,7	-1,4	1,1	-0,9
Total number examined cases	778	2238	3037	2662	3093	187,7	35,7	-12,3	16,2
Number of cases settled by way of consensus	214	847	1185	1422	1575	295,8	39,9	20,0	10,8
Share of cases settled by way of consensus, %	27,5	37,8	39,0	53,4	50,9	10,3	1,2	14,4	-4,7

* Compiled and calculated by authors based on the data: [15-19]

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Based on the above table's data till 2013 there was a trend of growth in the number of complaints submitted to the FAB, but in 2014 the number of complaints fell by almost 11%, due to the creation of a mega-regulator at the financial services market in Hungary in the face of the National Bank of Hungary, whose impact on professional market players increased and doubled the latter's responsibility before consumers. These led to the reduction of customer dissatisfaction by the services. Enhancement of the body's work quality towards improving the level of servicing by financial institutions of their customers and strengthening of the body's role in disputes resolution is explained by a significant increase of the share of cases settled by consensus, that is not reaching the proceedings at Commission's sessions. For the period of 2011-2014 the share of issues settled by consensus has almost doubled - from 27.5% in 2011 to 53.4% in 2014 and in 2015 was 50.9%. So during the period under investigation more than half of the accepted by the FAB cases were resolved by reaching agreement between the parties before Commission's sessions holding. The data presented above confirm the effectiveness of this mechanism for the protection of non-banking financial services' consumer rights in Hungary. It's also reasonable to examine the dynamics and structure of consumers complaints' arrival to the FAB of Hungary broken down by major financial market participants (Tab. 3).

Table 3

Dynamics and structure of complaints consideration by the Financial Arbitration Board of Hungary in 2011-2015 broken down by professional participants*

Pokaznik	Years										Change 2015/2011, % of total
	2011		2012		2013		2014		2015		
	Abs.	% of total	Abs.	% of total	Abs.	% of total	Abs.	% of total	Abs.	% of total	
Banking institutions	543	45,4	1726	48,8	2016	43,0	1882	45,0	2124	43,9	-1,5
Insurance companies	358	29,9	1123	31,8	1670	35,6	1304	31,2	1558	32,2	2,3
Finance Companies	153	12,8	472	13,4	763	16,3	776	18,6	875	18,1	5,3
Credit cooperatives	65	5,4	143	4,0	189	4,0	50	1,2	49	1,0	-4,4
Private pension funds	50	4,2	36	1,0	0	0,0	8	0,2	20	0,4	-3,8
Other financial institutions	27	2,3	34	1,0	54	1,2	161	3,9	207	4,3	2,0
Total	1196	100,0	3534	100,0	4692	100,0	4181	100,0	4833	100,0	-

* Compiled and calculated by authors based on the data: [15-19]

The largest number of considered complaints concerns to the banking institutions' activity, which during the investigated period accounts 43-49 % of all complaints lodged to the FAB of Hungary, but in 2014 was observed some reduction of this share. In 2015 it was 45%. Along with banking institutions a high proportion of submitted complaints relates to insurance companies, and accounts 30-36% of all submitted complaints. Over the investigated period significantly has increased the proportion of complaints aimed at establishing the truth in matters of services received from financial companies, against which in 2014 was addressed 776 complaints, that is 18.6% of all complaints submitted. Moreover, the proportion of complaints against these financial institutions in 2011 increased from 12.8% to 18.6% in 2014. Complaints against credit cooperatives in 2015 accounted 1.0%, which is by 4.5% less than in 2011.

Conclusions. Based on the research we can state about the importance of the Financial Arbitration Board functioning in rights protecting of financial services' consumers in Hungary, as evidenced by frequent cases settled by amicable agreement between consumers and professional participants of these services. Further studies should be directed to the implementation of the

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Hungarian experience in the modern system of consumers' rights protection, taking into account the main directions determined in the Strategy of reforming of the state regulation of non-banking financial services markets for the period 2015-2020 and Comprehensive Program of Financial Market Development of Ukraine until 2020.

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Received for publication 23.01.2017

Бібліографічний опис для цитування :

Bacho, R. J. Implementation of foreign experience of pre-trial dispute settlement at financial services markets in Ukraine / R. J. Bacho, N. M., Vdovenko, N. N. Poyda-Nosyk // Науковий вісник Полісся. – 2017. – № 2 (10). Ч. 2. – С. 85-93.